

Mr. John Twitty, Controller
Health Management Resources, Inc.
2905 White Horse Road
Greenville, South Carolina 29611

Re: AC# 3-SUN-C7 – Sunny Acres, Inc.

Dear Mr. Twitty:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through March 31, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

SUNNY ACRES, INC.
FORK, SOUTH CAROLINA

CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-SUN-C7

REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 17, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Sunny Acres, Inc., for the contract periods beginning October 1, 1996 and for the six month cost report period ended March 31, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Sunny Acres, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Sunny Acres, Inc. dated as of October 1, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
April 17, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

SUNNY ACRES, INC.
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-SUN-C7

	<u>10/01/96-</u> <u>03/31/97</u>	<u>04/01/97-</u> <u>09/30/97</u>	<u>Beginning</u> <u>10/01/97</u>
Interim reimbursement rate (1)	\$84.50	\$88.30	\$89.78
Adjusted reimbursement rate	<u>84.36</u>	<u>88.15</u>	<u>89.77</u>
Decrease in reimbursement rate	\$ <u>.14</u>	\$ <u>.15</u>	\$ <u>.01</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

SUNNY ACRES, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1996 Through March 31, 1997
AC# 3-SUN-C7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$44.34	\$43.70	\$43.70
Dietary	<u>-</u>	<u>8.88</u>	<u>8.59</u>	<u>8.59</u>
Subtotal	\$ <u>-</u>	53.22	52.29	52.29
Laundry/Housekeeping/Maint.	\$ -	7.10	7.04	7.04
Administration & Med. Rec.	<u>1.03</u>	<u>7.52</u>	<u>8.55</u>	<u>7.52</u>
Subtotal	\$ <u>1.03</u>	67.84	\$ <u>67.88</u>	66.85
<u>Costs Not Subject to Standards:</u>				
Utilities		2.04		2.04
Special Services		3.06		3.06
Medical Supplies & Oxy.		5.11		5.11
Taxes and Insurance		.32		.32
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>78.37</u>		77.38
Inflation Factor (N/A)				-
Cost of Capital				6.22
Cost of Capital Limitation				(.52)
Profit Incentive (Max. 3.5% of Allowable Cost)				1.03
Cost Incentive - For Gen. Serv. & Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$84.36</u>

SUNNY ACRES, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1997 Through September 30, 1997
AC# 3-SUN-C7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$44.34	\$43.70	\$43.70
Dietary	<u>-</u>	<u>8.88</u>	<u>8.59</u>	<u>8.59</u>
Subtotal	\$ <u>-</u>	53.22	52.29	52.29
Laundry/Housekeeping/Maint.	\$ -	7.10	7.04	7.04
Administration & Med. Rec.	<u>1.03</u>	<u>7.52</u>	<u>8.55</u>	<u>7.52</u>
Subtotal	\$ <u>1.03</u>	67.84	\$ <u>67.88</u>	66.85
<u>Costs Not Subject to Standards:</u>				
Utilities		2.04		2.04
Special Services		3.06		3.06
Medical Supplies & Oxy.		5.11		5.11
Taxes and Insurance		.32		.32
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>78.37</u>		77.38
Inflation Factor (4.90%)				3.79
Cost of Capital				6.22
Cost of Capital Limitation				(.52)
Profit Incentive (Max. 3.5% of Allowable Cost)				1.03
Cost Incentive - For Gen. Serv. & Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$88.15</u>

SUNNY ACRES, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning October 1, 1997
AC# 3-SUN-C7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$44.34	\$46.38	
Dietary		8.88	9.01	
Laundry/Housekeeping/Maint.	<u> </u>	<u>7.10</u>	<u>7.38</u>	
Subtotal	<u>\$2.45</u>	60.32	62.77	\$60.32
Administration & Med. Rec.	<u>1.68</u>	<u>7.52</u>	<u>9.20</u>	<u>7.52</u>
Subtotal	<u>\$1.68</u>	67.84	<u>\$71.97</u>	67.84
<u>Costs Not Subject to Standards:</u>				
Utilities		2.04		2.04
Special Services		3.06		3.06
Medical Supplies & Oxy.		5.11		5.11
Taxes and Insurance		.32		.32
Legal Fees		<u> </u>		<u> </u>
TOTAL		<u>\$78.37</u>		78.37
Inflation Factor (4.40%)				3.45
Cost of Capital				6.43
Cost of Capital Limitation				(.73)
Profit Incentive (Max. 3.5% of Allowable Cost)				1.68
Cost Incentive - For Gen. Serv. & Dietary				2.45
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(2.38)
Minimum Wage Add On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$89.77</u>

SUNNY ACRES, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1997
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-SUN-C7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$ 873,092	\$ -	\$ -	\$ 873,092
Dietary	174,844	-	-	174,844
Laundry	38,256	-	-	38,256
Housekeeping	66,816	2,657 (2)	-	69,473
Maintenance	32,135	-	-	32,135
Administration & Medical Records	148,055	-	-	148,055
Utilities	40,126	-	-	40,126
Special Services	59,706	625 (4)	-	60,331
Medical Supplies & Oxygen	103,883	7 (4)	556 (1) 2,657 (2)	100,677
Taxes & Insurance	6,276	-	-	6,276
Legal Fees	86	-	-	86
Cost of Capital	<u>126,961</u>	<u>-</u>	<u>4,498</u> (3)	<u>122,463</u>
Subtotal	1,670,236	3,289	7,711	1,665,814

SUNNY ACRES, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1997
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-SUN-C7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	9,822	-	-	9,822
Non-Allowable	<u>104,317</u>	<u>4,498</u> (3)	<u>632</u> (4)	<u>108,183</u>
Total Operating Expenses	<u>\$1,784,375</u>	<u>\$7,787</u>	<u>\$8,343</u>	<u>\$1,783,819</u>
TOTAL BEDS <u>111</u>		TOTAL PATIENT DAYS <u>19,691</u>		

SUNNY ACRES, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1997
For the Contract Periods Beginning October 1, 1997
AC# 3-SUN-C7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$ 873,092	\$ -	\$ -	\$ 873,092
Dietary	174,844	-	-	174,844
Laundry	38,256	-	-	38,256
Housekeeping	66,816	2,657 (2)	-	69,473
Maintenance	32,135	-	-	32,135
Administration & Medical Records	148,055	-	-	148,055
Utilities	40,126	-	-	40,126
Special Services	59,706	625 (4)	-	60,331
Medical Supplies & Oxygen	103,883	7 (4)	556 (1) 2,657 (2)	100,677
Taxes & Insurance	6,276	-	-	6,276
Legal Fees	86	-	-	86
Cost of Capital	<u>130,726</u>	<u>-</u>	<u>4,199</u> (3)	<u>126,527</u>
Subtotal	1,674,001	3,289	7,412	1,669,878

SUNNY ACRES, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1997
For the Contract Periods Beginning October 1, 1997
AC# 3-SUN-C7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	9,822	-	-	9,822
Non-Allowable	<u>100,552</u>	<u>4,199</u> (3)	<u>632</u> (4)	<u>104,119</u>
Total Operating Expenses	<u>\$1,784,375</u>	<u>\$7,488</u>	<u>\$8,044</u>	<u>\$1,783,819</u>
TOTAL BEDS	<u>111</u>	TOTAL PATIENT DAYS		
				<u>19,691</u>

SUNNY ACRES, INC.
Adjustment Report
Cost Report Period Ended March 31, 1997
AC# 3-SUN-C7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets Medical Supplies	\$ 556	\$ 556
	To capitalize equipment HIM-15-1, Section 108.1		
2	Housekeeping Medical Supplies	2,657	2,657
	To reclassify salaries and related payroll taxes to the proper cost center HIM-15-1, Sections 2102.3 and 2304		
3	Nonallowable Cost of Capital	4,498	4,498
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	(For the contract periods October 1, 1996 through September 30, 1997)		
3	Nonallowable Cost of Capital	4,199	4,199
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	(For the contract periods October 1, 1997 through September 30, 1998)		
4	Medical Supplies Special Services Nonallowable	7 625	632
	To add co-insurance for Medicare Part B ancillary services State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$12,542</u>	<u>\$12,542</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

SUNNY ACRES, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended March 31, 1997
 For the Contract Periods October 1, 1996 Through September 30, 1997
 AC# 3-SUN-C7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>111</u>
Deemed Asset Value	3,549,003
Improvements Since 1981	332,630
Accumulated Depreciation at 3/31/97	<u>(991,581)</u>
Deemed Depreciated Value	2,890,052
Market Rate of Return	<u>0.070</u>
Total Annual Return	<u>202,304</u>
Adjust for Cost Report Period 182/365	100,875
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	100,875
Depreciation Expense	19,486
Amortization Expense	3,009
Capital Related Income Offsets	(907)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	122,463
Total Patient Days (Minimum 97% Occupancy)	<u>19,691</u>
Cost of Capital Per Diem	\$ <u><u>6.22</u></u>

SUNNY ACRES, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended March 31, 1997

For the Contract Periods October 1, 1996 Through September 30, 1997

AC# 3-SUN-C7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement (Per DH&HS)	\$ 1.71
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.70</u>
Reimbursable Cost of Capital Per Diem	\$ 5.70
Cost of Capital Per Diem	<u>6.22</u>
Cost of Capital Per Diem Limitation	\$ <u>(0.52)</u>

SUNNY ACRES, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended March 31, 1997
For the Contract Periods Beginning October 1, 1997
AC# 3-SUN-C7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1144</u>
Deemed Asset Value (Per Bed)	33,022
Number of Beds	<u>111</u>
Deemed Asset Value	3,665,442
Improvements Since 1981	332,630
Accumulated Depreciation at 3/31/97	<u>(991,581)</u>
Deemed Depreciated Value	3,006,491
Market Rate of Return	<u>0.070</u>
Total Annual Return	<u>210,454</u>
Adjust For Cost Report Period 182/365	104,939
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	104,939
Depreciation Expense	19,486
Amortization Expense	3,009
Capital Related Income Offsets	(907)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	126,527
Total Patient Days (Minimum 97% Occupancy)	<u>19,691</u>
Cost of Capital Per Diem	\$ <u>6.43</u>

SUNNY ACRES, INC.

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended March 31, 1997
For the Contract Periods Beginning October 1, 1997
AC# 3-SUN-C7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement (Per DH&HS)	\$ 1.71
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.70</u>
Reimbursable Cost of Capital Per Diem	\$ 5.70
Cost of Capital Per Diem	<u>6.43</u>
Cost of Capital Per Diem Limitation	\$ <u>(0.73)</u>